



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

450 N STREET, SACRAMENTO, CALIFORNIA  
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0092  
1-916-324-1825 • FAX 1-916-322-4530  
[www.boe.ca.gov](http://www.boe.ca.gov)

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July 18, 2013

VIA INTERNET

Dear Interested Party:

The Audit Manual (AM) is a guide for the Board of Equalization (BOE) staff in administering tax and fee programs. It is available to the public and can be accessed from the BOE web page at <http://www.boe.ca.gov/sutax/staxmanuals.htm>.

The Sales and Use Tax Department (SUTD) is proposing to add the following new sections to the AM to incorporate current audit policies and management guidelines:

- Section 0408.12, *Audits of Sales Subject to Use Tax*
- Section 0409.80, *Multistate Tax Commission, Multijurisdiction Resale Certificate*
- Section 0419.22, *Shipment by Mail or Common Carrier to Indian Reservations*
- Section 0419.24, *Property Used in Tribal Self-Governance by Tribes Without Reservation Facilities*
- Section 0434.32, *Offsetting Interest on Claims for Refund Filed During an Audit*
- Section 0436.00, *Alternative Method of Reporting Use Tax*

The proposed sections are provided on the following pages for the convenience of interested parties who may wish to submit comments or suggestions. Please feel free to publish this information on your website or otherwise distribute it to your associates, members, or other persons.

If you have any comments or suggestions related to the proposed AM revision, you may contact the BOE at [AM.RevisionSuggestions@boe.ca.gov](mailto:AM.RevisionSuggestions@boe.ca.gov). Your comments or suggestions must be received by BOE no later than **September 18, 2013** in order to be considered by staff. Thank you for your consideration.

Sincerely,

Susanne Buehler, Chief  
Tax Policy Division  
Sales and Use Tax Department

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## **AUDITS OF SALES SUBJECT TO USE TAX**

**0408.12**

In determining the party liable for the assessment of use tax, the auditor should not presume the use tax will be assessed in the future audit of a purchaser due to the size of the entity or audit history, and may assess use tax against the seller. To avoid a duplicate assessment of use tax on the same transaction, the auditor should complete Form BOE-1164, *Memorandum of Possible Tax Liability*, and make a notation whether use tax was assessed on the seller/purchaser. The auditor sends a copy of the form to both taxpayer files. In addition, the auditor may preclude the duplicate assessment of use tax by using Form BOE 503-C (paper version) or Form BOE-503-C1 (electronic version), *Statement of Property Purchased Without Payment of California Use*.

Generally, in a simultaneous audit of the seller and purchaser, the use tax is assessed in the audit of the purchaser. However, the auditor should verify tax is not being assessed in the audit of the seller to avoid double taxation of the transaction. The auditor should adhere to the guidelines outlined in AM section 1302.25 when the transaction relates to a statistical sample.

## **MULTISTATE TAX COMMISSION**

### **MULTIJURISDICTION RESALE CERTIFICATE**

**0409.80**

The Multistate Tax Commission (MTC) issued the multijurisdiction resale certificate (MTC certificate) in July 2000 to provide a standard document for businesses to utilize that will be uniformly accepted by sellers. Along with many other states, California adopted the MTC certificate. The certificate contains all of the required elements stated in Regulation 1668, *Resale Certificates*, and can be furnished as either a “blanket” or a “qualified” certificate. In reviewing the certificate, an auditor should determine if the MTC certificate is written as a blanket or a qualified resale certificate.

Under a blanket MTC certificate, all tangible personal property described on the certificate is deemed to be sold for resale unless the resale certificate is superseded by a purchase order. To be accepted as a blanket resale certificate, the purchaser must complete the form in its entirety and add a general description of tangible personal property or taxable services to be purchased from the seller. All sales of property stated to be for resale on the certificate can then be sold to the purchaser without tax. If the purchaser subsequently issues a purchase order indicating that the purchase is taxable, the resale certificate does not apply to that purchase. However, the burden is on the purchaser to establish that the purchase order was sent to and received by the seller in a timely manner or that the tax was paid to the seller.

When a purchaser issues a qualified MTC certificate, the burden is upon the seller to examine each purchase order issued by its customer to determine if the purchase is subject to tax or is for resale. To be accepted as a qualified

resale certificate, the certificate must be completed in its entirety and the “general description” line should contain the statement “see purchase order” or be left blank. Each purchase order must specify whether the property covered by the order is for resale or taxable. A purchase order containing any of the terminology included in Item 2 of AM section 0409.50, indicating that tax or tax reimbursement should not be added to the sales invoice, will be regarded as designating that the property described is purchased for resale. If the purchase order does not specify the merchandise is for resale, the purchase is presumed to be the purchaser’s own use and the sale is subject to tax. Item 2. of AM section 0409.50 also addresses purchase orders where the applicable amount of tax is shown as \$0 or is left blank.

An example of the multijurisdiction MTC Uniform Sales & Use Tax Certificate can be found on the Multistate Taxation Commission website.

### **SHIPMENT BY MAIL OR COMMON CARRIER TO INDIAN RESERVATIONS**

**0419.22**

Generally, sales tax applies on sales of tangible personal property by an off-reservation retailer to an Indian on an Indian reservation when the property is delivered by mail or common carrier unless the following three conditions are met:

1. The contract of sale (or equivalent document) must include a statement expressly requiring delivery on the reservation (F.O.B. reservation).
2. Title cannot pass prior to the time the merchandise is delivered to the Indian purchaser on the reservation.
3. The goods must in fact be delivered directly to the Indian purchaser on the reservation.

When all three conditions are met, the transaction qualifies as a sale on the reservation even if the transportation documents, such as a bill of lading, do not state that the delivery is at destination (F.O.B. reservation), provided the transportation documents do not contain any language contradictory to the language contained in the contract of sale.

For example, if the contract of sale contains a clause passing title on the reservation and an F.O.B. reservation clause, and the transportation document is silent regarding F.O.B. or otherwise does not indicate delivery is at destination, the transaction will qualify as a sale on the reservation provided the three conditions listed above are met. However, if the contract of sale contains a clause passing title on the reservation and an F.O.B. reservation clause, but the transportation document contains an F.O.B. origin clause, the documents would contradict each other and the sale would be deemed to occur at the time the retailer transfers the property to the shipper. Accordingly, the transaction will be subject to sales tax even when the above conditions are met.

## **PROPERTY USED IN TRIBAL SELF-GOVERNANCE BY TRIBES WITHOUT RESERVATION FACILITIES**

**0419.24**

Generally, sales tax applies to sales of tangible personal property by an off-reservation retailer to an Indian when ownership of the merchandise is transferred to an Indian purchaser outside Indian country. However, Sales and Use Tax Regulation 1616, *Federal Areas*, subdivision (d)(4)(G), provides a sales and use tax exemption for sales of property used in tribal self-governance. To qualify for the exemption, all of the following criteria must be met:

1. The sale must be to a tribal government of an Indian tribe that is officially recognized by the United States.
2. The tribal government's Indian tribe does not have a reservation, or the principal place where the tribal government meets to conduct tribal business is not on the reservation because the reservation does not have a building or lacks essential utility services necessary to meet and conduct tribal business.
3. The property is purchased by the tribal government for use in tribal self-governance, and
4. Title to the property transfers and the property is delivered to the tribal government at the principal place where the tribal government meets to conduct tribal business.

To verify the address where title to the property will transfer is valid, a list that contains eligible tribal governments along with the address outside Indian country where they meet to conduct tribal business is available on BOE's webpage. The list of the tribal meeting locations is available at [http://www.boe.ca.gov/sutax/tribal\\_gov\\_meeting\\_locations.htm](http://www.boe.ca.gov/sutax/tribal_gov_meeting_locations.htm).

To support the exempt sale, retailers should obtain an exemption certificate from the tribal government as supporting documentation. Tribal governments may use Form BOE-146-TSG, *Exemption Certificate – Property Used in Tribal Self-Governance and Statement of Delivery*, as part of the necessary documentation to retailers that the sale meets the criteria for the exemption.

## **OFFSETTING INTEREST ON CLAIMS FOR REFUND FILED DURING AN AUDIT**

**0434.32**

The efficiency of the audit process is improved by discussing the possibility of claims for refund with the taxpayer at the opening conference. To avoid delaying the timely completion of an audit, the auditor should make every effort to obtain any claims for refund as soon as possible.

Refund claims filed with supporting documentation are to be included as part of the audit report when there is sufficient time to address the adjustments in the AWP. Generally, if a taxpayer files a claim for refund prior to the completion of the audit (i.e., the exit conference), and the taxpayer provides complete and acceptable supporting documentation, the auditor should process the refund claim as part of the audit report with credits offsetting the liabilities during the audit period. If the claim is filed prior to completion of the audit but additional time is requested to compile supporting documentation which, when considering the time to verify the documentation, will delay the audit more than ninety (90) days, the claim should generally be processed separately as a reaudit. If the refund claim includes periods outside of the audit period, the portion of the claim outside the audit period should be processed as a Field Billing Order (FBO). Hours spent verifying refund claims should be noted in the "General Audit Comments" section of the audit report as set forth by the policy in AM section 0206.48, *Overpayment Comments*.

Requests for extensions to provide supporting documentation should follow the policy set forth in AM section 0402.25, *Waiver of Credit Interest Policy*. There may be instances where it is appropriate to obtain a waiver of credit interest, however, the taxpayer is entitled to an offset of debit interest on the original audit liability when the claim is processed in a reaudit. If the taxpayer cannot provide supporting documentation within the timeframes set forth in AM section 0402.25, the claim should be denied.

In cases where a claim for refund is filed after the completion of the audit and is therefore not addressed in the original AWP, and the liability is in petition status, adjustments shall be included as part of the reaudit when warranted. Claims for refund within the audit period filed within six months of the date the determination became final are open to a credit offset adjustment and shall be processed as part of a reaudit in accordance with AM section 0703.05.

For more detailed information regarding credit offset adjustments, refer to AM section 0434.00, *Credit Offsets*.

## **ALTERNATIVE METHOD OF REPORTING USE TAX**

**0436.00**

### **GENERAL**

**0436.01**

Ex-tax purchases subject to use tax are ultimately the tax liability of the purchaser storing, using or otherwise consuming the property in this state. Similarly, ex-tax purchases subject to transactions and use tax (district tax) are ultimately the liability of the purchaser when purchased for use in a district imposing such a tax and thereafter used there.

The Alternative Method for Reporting Use Tax (AMRUT) Program is a process whereby a taxpayer can write to the State Board of Equalization (BOE) and propose a prospective use tax reporting method for qualified purchases subject to use tax (see AM section 0436.04, item B). The alternative reporting method replaces the usual method of reporting use tax on a transaction-by-transaction basis. The alternative reporting method will not allow a taxpayer to issue resale or exemption certificates to vendors solely for the purpose of directly reporting the use tax under the AMRUT Program. The taxpayer's proposal must address the following matters:

- The remittance of use tax directly to BOE on certain mutually agreed-upon categories of purchases.
- The application of a mutually agreed-upon taxable percentage to the taxpayer's total purchases for these categories to determine the tax.

If BOE concludes the proposed reporting method accurately reflects the taxpayer's use tax liability for the defined population, BOE will prepare a written response to the taxpayer approving (subject to certain conditions) the use of the proposed reporting method. This written correspondence is required for an approved AMRUT.

In general, audits of purchases covered by a BOE-approved reporting method will not ascertain whether or not tax was overpaid or underpaid on a transaction-by-transaction basis. Instead, the audit will determine whether or not the taxpayer complied with the criteria specified in the BOE-approved AMRUT. Audits of purchases outside the scope of the BOE-approved AMRUT, such as purchases of fixed assets, should be examined in accordance with procedures described in this manual.



## **ELIGIBILITY**

**0436.02**

BOE encourages participation in AMRUT and will not restrict eligibility to any particular taxpayer, regardless of the size or type of business. In order to be eligible to participate in the program, the taxpayer must be registered with BOE to report sales and use tax, be in good standing, and maintain acceptable accounting records and internal controls in accordance with the provisions of Regulation 1698, *Records*. Taxpayers requesting approval must provide the necessary accounting records (including electronic data files) upon request in a timely manner.

Ideal candidates for this program include taxpayers who typically have large volumes of recurring purchases subject to use tax. The taxpayer's business and purchasing practices must be consistent.

## **AMRUT APPROVAL PROCESS**

**0436.03**

The taxpayer initiates the request to participate in the AMRUT Program by submitting a written request to the District Principal Auditor (DPA) in the taxpayer's district of account. Requests must include:

- The taxpayer's name, address and seller's permit number,
- The period for which the request is being made,
- An assurance that the taxpayer's accounting records and internal controls are acceptable pursuant to the requirements of Regulation 1698, and
- Identification of any records that are maintained electronically.

BOE will only consider written requests for participation where the taxpayer is identified. Within 10 business days of receiving a request for participation, the district of account will send an acknowledgment letter to the taxpayer providing information about the program, outlining the implementation process and soliciting additional information, if needed. The taxpayer will be provided Form BOE-472, *Use of Sampling in Auditing*, to complete prior to beginning the taxable percentage calculation. Auditors will work with the taxpayer to determine the agreed-upon categories of purchases and the taxable reporting percentage. This process should be completed within 90 days after the taxpayer's accounting records are made available.

After completion of the taxable percentage calculation, the DPA will prepare a memo to the Supervisor, Audit and Information Section (AIS) containing the district of account's recommendation regarding the taxpayer's participation in AMRUT. The memo should include all details regarding the taxable percentage calculation and a copy of the completed Form BOE-472. The AIS Supervisor will review the materials and notify the DPA in writing of approval or denial of the taxpayer's participation in AMRUT. The DPA will then furnish a letter to the taxpayer, with a copy to the AIS Supervisor, approving or denying the taxpayer's request for participation in AMRUT. If approved, the letter to the

taxpayer must also include all details regarding the AMRUT, such as the taxable percentage to be used, the purchases the taxable percentage applies to, and the time period AMRUT is effective (AM section 0436.05, *Term*). In addition, general information about the program, such as termination or the definition of a significant business change, must be provided to the taxpayer.

## **TAXABLE PERCENTAGE CALCULATION**

**0436.04**

### **A. Base Period Selection**

It is essential to select a mutually acceptable base period and scope of purchases covered by the proposed AMRUT. If currently under audit, the base period is typically the current audit period. However, the taxpayer and the auditor may select transactions occurring over some other period if necessary. At a minimum, 12 months of detailed accounting records, which include the most recent reporting period, should be used to calculate the taxable percentage. When this minimum is used, summary accounting records from the two preceding years must be provided for comparison purposes.

When selecting a base period, it is essential the tested purchases are representative of the taxpayer's normal purchasing activity and anticipated activity in future filing periods.

### **B. Taxable Percentage Calculation**

The most important element of this reporting method is the calculation of the taxable percentage to be applied prospectively to purchases within the defined population. Under this method, the taxpayer will calculate (with auditor involvement) a taxable percentage to be applied to purchases from specific categories of transactions. Percentages are calculated as follows:

1. Determine which of the examined purchases in the base period are subject to use tax.
2. Divide the resulting taxable purchases by total purchases in the base period.

The total purchases subject to use tax for the approved period is calculated by applying the taxable percentage to total purchases from the same specified categories of transactions.

The taxable percentage calculation may be based on statistical sampling, non-statistical sampling or a detailed review of the transactions in the base period. However, the taxpayer and the auditor must agree on the sampling plan and procedures used to calculate the taxable percentage.

The taxable percentage calculation and application are limited to qualified purchases. This excludes specific categories of transactions such as fixed asset acquisitions and other accounts or transactions the



taxpayer or the auditor believes are atypical (e.g., resale inventory withdrawals, inter-company purchases, etc.) and should not be included in the defined population. Fixed asset acquisitions are excluded since these purchases generally are one-time transactions. Atypical purchases skew the taxable percentage calculation and negate the validity of the sample.

It may be necessary to calculate more than one taxable percentage to be applied to different categories of purchases. Computation of different percentages may be established by:

- Account number(s)
- Subsidiary
- Location
- Division
- Computer accounting system
- District tax
- Other criterion that makes business sense and produces a reliable and verifiable estimate of the taxpayer's use tax liability.

#### C. Sample Selection

To establish a prospective taxable percentage, a sample may be drawn from transactions that occurred in prior periods. Whenever sampling techniques are used, an estimate is made instead of using the actual result from a detailed review of the population. Therefore, the sample must be representative of the population. It is expected that the sample results will approximate the use tax currently being reported on a transaction-by-transaction basis for qualified purchases after considering BOE audit adjustments (if applicable).

*The auditor must be involved in the sample selection process.* Prior to beginning the process, the taxpayer will complete a preliminary Form BOE-472. Both the taxpayer and the auditor must agree to the sampling plan and then a final Form BOE-472 will be completed.

If statistical sampling techniques are used, the sample results will be evaluated to determine how accurately the sample reflects the population. Statistical sampling techniques must be in accordance with AM Chapter 13, *Statistical Sampling*.

RTC section 6406 credits and atypical transactions encountered during base period testing will be reviewed and evaluated by the auditor on a transaction-by-transaction basis.

#### D. Electronic Records

Generally, taxpayers that wish to report use tax using AMRUT will maintain and provide access to their accounting records in electronic format. The auditor will be involved in the analysis of these records

during the review and approval process. The taxpayer will be required to provide to the auditor a data download of the necessary electronic accounting records, including control totals, in a format prescribed by the auditor.

#### E. Disputed Transactions

BOE will not issue a letter approving a taxpayer's proposal if the taxpayer and the auditor cannot agree on a sampling plan or resolve disputes regarding individual sample transactions.

### **TERM**

**0436.05**

The taxpayer will be notified of the specific period for which the applicable percentage may be relied upon. Generally, this will be a 36-month period corresponding with the taxpayer's reporting basis. This information will be included in the DPA's letter to the taxpayer outlining the specific details of the AMRUT.

### **RENEWAL**

**0436.06**

BOE's approval to use AMRUT is not automatically renewable. BOE may approve an extension for subsequent time periods. BOE retains the right to audit the taxpayer's records to determine if the taxpayer's business practices or operations have changed.

Renewals or extensions will be handled in the same manner as initial requests for participation as provided in AM section 0436.03, *AMRUT Approval Process*. The taxpayer must initiate an extension or renewal request by submitting a written request to the DPA. At the discretion of the DPA, the auditor may recommend using the existing taxable percentage based on a review, to the extent deemed appropriate by the DPA, of the taxpayer's records or the auditor may calculate a new taxable percentage as provided in AM section 0436.04, *Taxable Percentage Calculation*. After determining the taxable percentage, the DPA will prepare a memo to the AIS Supervisor containing the auditor's recommendation regarding the taxpayer's continued participation in AMRUT and all details regarding the taxable percentage calculation. The AIS Supervisor will notify in writing the DPA of approval or denial of an extension in AMRUT for the taxpayer. The DPA will then furnish a letter to the taxpayer, with a copy to the AIS Supervisor, approving or denying the taxpayer's extension request to participate in AMRUT. The letter to the taxpayer must also include all details regarding the AMRUT, such as the taxable percentage to be used, the purchases the taxable percentage applies to, and the time period AMRUT is effective.

## **TERMINATION OR CANCELATION**

**0436.07**

BOE may rescind its approval of the reporting method if the taxpayer fails to comply with any of the program's conditions. In addition, the written approval of the use tax reporting method is void if the taxpayer files a claim for refund for tax that had been reported based upon this reporting method.

Upon written notification to the taxpayer, the approved AMRUT is rescinded. The notification shall be effective as of a date specified by BOE. Accordingly, the approved AMRUT becomes invalid the first day of the subsequent quarterly filing period, but no less than thirty (30) days after the effective date of BOE's written notification.

At any time, the taxpayer may elect to discontinue reporting use tax based upon the approved AMRUT. The taxpayer must notify BOE in writing of the election to discontinue the alternative reporting method within the quarterly filing period of the election.

Once the AMRUT is rescinded, cancelled, voided, or discontinued the AMRUT can no longer be relied upon as advice that may qualify for relief under RTC section 6596 except to the extent that a transaction examined as part of the taxable percentage calculation is incorrectly classified as not being subject to use tax.

## **REVISED PERCENTAGES**

**0436.08**

### A. Notification Requirements

The taxpayer is responsible for monitoring and advising BOE of any activities that significantly change the facts and circumstances upon which BOE's previous approval of AMRUT was based. The taxpayer is required to notify BOE of significant changes including, but not limited to:

- Changes in accounting policy – changes that affect the distribution of use tax transactions in the accounts covered under the AMRUT that would significantly affect the agreed-upon percentage.
- Changes in purchasing practices – changes in purchasing activities that would significantly affect the agreed-upon percentage.
- Other significant business changes, as discussed in item B below.

Notification to BOE must be in writing and addressed to the DPA in the district of account within 90 days of the significant change. The taxpayer will be allowed a reasonable time in which to provide supporting documentation. A significant business change affecting the taxable percentage will terminate the approved AMRUT and the taxpayer will be required to request approval to use the revised taxable percentage. The

taxpayer's request shall be subject to BOE's review and approval based on the new information. If the revised taxable percentage is approved, the letter discussed in AM section 0436.03 will be sent to the taxpayer. The revised taxable percentage will become effective commencing the first day of the quarterly filing period following BOE's approval.

If the taxpayer fails to report a significant business change within the specified period, the approved AMRUT may be rescinded and the taxpayer may be liable for any unreported use tax due from the first day of the quarterly filing period following the date of the significant business change.

The use of the revised taxable percentage without BOE's approval will not serve as basis for RTC section 6596 relief.

#### B. Significant Business Changes

This program does not relieve the taxpayer of his or her responsibility to report in accordance with changes in the California Sales and Use Tax Law and the accompanying regulations. Changes in laws may occur during the period when the approved AMRUT is in effect. During the period the approved AMRUT is in effect, the taxpayer is responsible for monitoring its purchasing practices and the California Sales and Use Tax Law to ascertain any changes that may significantly affect the taxable percentage.

Events which may result in a significant business change that are likely to affect the taxable percentage include, but are not limited to the following:

- Change in the product line
- Change in purchasing procedures (for example, implementation of cost containment programs)
- Merger or acquisition
- Discontinuation or start up of manufacturing or support facilities
- Change in application of tax due to statutory change, regulatory change or a change in the application of the law due to a court decision
- Change in the financial or accounting system (for example, utilization of a different software program to record purchases)

When the taxpayer makes a change in business practices, procedures or operations, including but not limited to those described above, the taxpayer must determine whether the event(s) results in a significant change to the agreed-upon percentage. For purposes of audit, the taxpayer should retain the documentation he or she used to determine whether the event is significant.

If a change in business practices, procedures or operations occurs, the following thresholds will be used to determine whether the event is significant. A significant business change has occurred when, over a 12-month period:

1. An increase in purchases subject to use tax for the agreed-upon categories of purchases results in unreported purchases subject to use tax of \$100,000 or more in measure; or
2. For this same period, the taxable percentage calculation used to determine use tax reporting increases by 10 percent or more from the previously agreed-upon taxable percentage.

For example, if the agreed-upon taxable percentage was determined to be 10 percent, and thereafter, over a 12-month period, based upon a change in vendors from an in-state vendor to an unregistered out-of-state vendor, the actual taxable percentage increased to 12 percent, this would be regarded as a significant business change that requires the taxpayer to notify BOE of the change. This change represents a 20 percent increase in the taxable percentage (2 percentage points difference between actual and agreed-upon taxable percentages divided by the agreed-upon taxable percentage).

If the taxpayer utilizes multiple taxable percentages for reporting, each taxable percentage should be examined individually to determine if a significant business change has occurred. Therefore, changes in business operations may result in a significant business change occurring for one or more of the taxable percentages, but not for all taxable percentages. The taxpayer may continue to utilize approved taxable percentages that were not affected by a significant business change requiring BOE notification.

Although the thresholds provided for determining whether a change is significant require the use of 12 months of purchases, this does not allow the taxpayer to wait 12 months after the event occurred that is deemed a significant business change before notifying BOE. The time period to notify BOE remains within 90 days of a significant business change. The thresholds are provided as a means of quantifying whether an event is significant.

The taxpayer is required to retain documentation he or she used at the time of the business change to determine whether the event is significant. This may require the taxpayer to look forward or project how the change would impact the taxable percentage over the next 12 months. If this documentation supports the fact that the change qualifies as a significant business change, the taxpayer must provide notification to the BOE within 90 days of the event. If this documentation supports the fact that the change was not expected to be significant, and later found to be significant, the taxpayer should notify BOE within 90 days of

this discovery.

If the taxpayer anticipates that the reporting percentage is likely to fluctuate and is not likely to remain stable, the business may not be an appropriate candidate for AMRUT.

## **POST REVIEW AND EVALUATION**

**0436.09**

The district office may choose to review the records any time during the term of the AMRUT to monitor the integrity of the program or in conjunction with a sales and use tax audit.

BOE will verify the taxpayer is in compliance with the AMRUT. This includes verifying the mechanical accuracy and appropriateness of accounting procedures for all applicable accounts within the defined population.

The taxpayer's records will be reviewed to determine if there has been an unreported change in business practices or operations during the applicable period. The review will determine if any unreported business changes have a significant impact on the agreed-upon percentage. This may include a comparison of vendors from the original test with the list of current vendors to determine if there has been a significant change in the in-state versus out-of-state vendor distribution.

BOE will perform a detailed (transaction-by-transaction) test of purchases if it has previously established that one or more events have taken place that may have resulted in a significant business change. Prior to initiating a detailed test of purchases, the DPA will review the preliminary analysis that determined a significant business change has occurred.